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SUBJECT: SOUTH AFRICA ECONOMIC NEWSLETTER  
March 24 2005 ISSUE

1. Summary. Each week, AMEmbassy Pretoria publishes an economic newsletter based on South African press reports. Comments and analysis do not necessarily reflect the opinion of the U.S. Government. Topics of this week's newsletter are:

- New Vehicle Exports Increase by 49.5% in February;
  - Savings Have to Increase for 6% Growth;
  - Competition Tribunal to Rule on Airline Collusion;
  - Competition Commission Finds Collusion in Car Security Industry;
  - Documented Immigrants, Emigrants and Tourists Increase; and
  - 3.3 Percent Consumer Price Increase Expected
- End Summary.

#### NEW VEHICLE EXPORTS INCREASE BY 49.5% IN FEBRUARY

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2. South African new vehicle exports increased 49.5 percent (m/m) in February to 8,374 units compared to 5,600 in January. Despite the large monthly increase, year-on-year (y/y) exports were 10.6 percent lower in the first two months of 2005 compared with the same period last year. The National Association of Automobile Manufacturers of South Africa (NAAMSA) expects exports to rise by 31.7 percent to 145,500 units or an average of 13,153 units in the remaining ten months of 2005. The y/y drop is largely due to the end of the production for the "old" BMW 3 series, whose production ended on February 17. BMW exported over 30,000 units in 2004, but due to the model change over, BMW expects to export 25,000 units this year. Exports of the new 3 series will start around May, so February March and April are likely to see y/y declines for overall exports. Exports from other manufacturers have increased by 41.8 percent y/y in the first two months. Source: I-Net Bridge, March 23.

#### SAVINGS HAVE TO INCREASE FOR 6% GROWTH

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3. The current level of savings in South Africa would have to increase substantially for growth to reach 6 percent, according to Finance Minister Trevor Manuel. Manuel stated that gross domestic savings and gross fixed capital formation of at least 20 percent and 25 percent of GDP, respectively, were required to achieve this GDP growth rate. Manuel noted that gross savings as a percentage of GDP were only 16.3 percent in 2003 and 14.8 percent in the first three quarters of 2004 and the rate of gross fixed capital formation was 16 percent in both 2003 and 2004. Net household savings showed a declining trend from 0.8 percent of GDP in 2003 to 0.7 percent in the first three quarters of 2004. Net savings by government fell from negative 1.6 percent of GDP in 2003 to negative 2 percent in the first three quarters of 2004 as government increased its capital expenditure relative to consumption. Manuel's comments in a written reply to a question in Parliament come at a time when government is considering raising the economy's growth target above the average of 4.2 percent. Source: Business Day, March 22.

#### COMPETITION TRIBUNAL TO RULE ON AIRLINE COLLUSION

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4. The Competition Commission has referred claims against South Africa Airways (SAA), SA Airlink, SA Express and Nationwide to the Competition Tribunal on price collusion. The airlines are accused of agreeing to simultaneously introduce a fuel surcharge on the price of tickets for domestic flights, which resulted in price increases. The Commission has recommended the airlines each be fined up to 10 percent of their revenue in the previous financial year. Commissioner Menzi Simelane began the investigation in May 2004 into the Airlines Association of Southern Africa, of which SAA, SA Airlink, SA Express, Nationwide and British Airways (Comair) are members.

Comair successfully applied for corporate leniency after admitting to contravening some sections of the Competition Act, but agreeing to assist the commission in the collusion case. Comair was not referred to the Tribunal, although this situation could change if the leniency is withdrawn. Simelane said the airlines should have consulted the commission before implementing the fuel tax. Source: Sapa, March 23.

#### COMPETITION COMMISSION FINDS COLLUSION IN CAR SECURITY INDUSTRY

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15. South Africa's Competition Commission has uncovered further evidence of collusion and price fixing among some of South Africa's largest vehicle-tracking companies, including Netstar and Tracker. The Commission also found that 15 manufacturers of gearlocks and alarm systems were contravening competition laws. Two firms it named were Sherlock, part of JSE Securities Exchange SA-listed Control Instruments, and Grip-Tech. These companies all face fines of up to 10 percent of their annual revenue. The commission has referred two complaints against the vehicle tracking, gearlock and alarm companies to the Competition Tribunal for adjudication. The probe into security accessories comes as a result of a probe into the vehicle industry. Commission investigations into the vehicle and related industries originated with one complaint about Toyota imposing minimum resale prices on dealers, which resulted in the commission imposing a R12 million fine (\$1.87 million using 6.45 rands per dollar, the average 2004 exchange rate) on Toyota in 2004. This fine led to an investigation into minimum resale pricing by other car makers, whose final results have not been released. The investigation has taken longer than expected because it revealed possible collusion in sectors associated with vehicle manufacturing. The vehicle industry contributes up to 5.7 percent of South Africa's GDP and employs more than 260,000 people. Source: Business Day, March 23.

#### DOCUMENTED IMMIGRANTS, EMIGRANTS AND TOURISTS INCREASE

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16. In 2003, documented immigration, self-declared emigration and tourist arrivals increased 61 percent, 48 percent and 1.4 percent respectively. Both documented immigration and self-declared emigration demonstrated wide fluctuations from 1970 to present. Documented immigration showed two major peaks in 1975 and 1982. From 1990 onwards, there was a downward trend until 2001 when the trend began to increase. In 2003, the number of documented immigrants to South Africa was 10,578 compared to 6,545 in 2002, with 47 percent coming from other African countries and 90 percent being economically inactive. Emigration data showed three major peaks, occurring in 1977, 1986, and 1994. In the post-1994 period, the trend in self-declared emigrants has been relatively flat up until 2001 when emigrants began to increase annually. In 2003, the number of self-declared emigrants increased to 16,165 compared to 10,890 in 2002, an increase of 48 percent. For self-declared emigrants, 65 percent were economically active while 35 percent were not. During 2003, Nigeria was the top source of immigrants while the United Kingdom was the leading destination country of self-declared emigrants. Foreign tourist arrivals in September 2003 increased 1.4 percent in 2003, totaling 6.6 million, with approximately 68 percent of arrivals coming from other African countries. Overseas arrivals increased 0.1 percent in 2003, with the United Kingdom at 24 percent, Germany at 13 percent, and the United States at 10 percent, as the major sources of foreign tourists. Source: Business Day, March 23; Stats SA Reports 03-51-02/03, March 22.

#### 3.3 PERCENT CONSUMER PRICE INCREASE EXPECTED

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17. South Africa's consumer price index excluding mortgage rate changes (CPIX) is expected to increase 3.3 percent in February, according to an I-Net Bridge survey of economists. CPIX increased 4.3 percent in January and is the inflation target used by the South African Reserve Bank (SARB). February's increase should be well within the SARB inflation target range of 3 to 6 percent. February's overall consumer price (CPI) should increase 2.7 percent, compared to January's 3 percent increase. Statistics SA will release the official February consumer inflation data on March 30. Source: I-Net Bridge, March 124.